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INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS

RUEATRS/DEPT OF TREASURY WASHINGTON DC

RUEHBK/AMEMBASSY BANGKOK 8469

RUEHKO/AMEMBASSY TOKYO 2154

RUEHBJ/AMEMBASSY BEIJING 5169

RUEHBY/AMEMBASSY CANBERRA 2695

RUEHUL/AMEMBASSY SEOUL 4699

RHMFIU/DEPT OF ENERGY WASHINGTON DC

RUCPDOC/DEPT OF COMMERCE WASHINGTON DC

RUEHRC/USDA FAS WASHDC

RHEHNSC/NSC WASHDC

UNCLAS SECTION 01 OF 03 JAKARTA 001259

SENSITIVE

SIPDIS

DEPT FOR OES AND EAP

OES/ENV FOR JBFENFORADO, HLEE

USTR FOR MLINSCOTT, DBROOKS

USAID FOR ANE, EGAT

BANGKOK FOR RDM/A

NSC FOR CEO CONNAUGHTON, VAN DYKE

USFS FOR CMACKIE

USDA/FAS FOR OSTA, OCBD, OCRA/RIKER

E.O. 12958: N/A

TAGS: [EAGR](#) [EAID](#) [ENRG](#) [KGHG](#) [SENV](#) [PGOV](#) [ID](#)

SUBJECT: INDONESIA - SUSTAINABLE PALM OIL PRODUCTION

REF: STATE 065271

**¶1.** (SBU) Summary. While unrestrained oil palm expansion is a potential threat to Indonesia's forests, the right kind of oil palm production also presents an opportunity. Increasing palm oil production can be an important vehicle for economic development and rural poverty reduction. The USG can help tackle the lack of forest governance and capacity on land use planning, which are the fundamental failings that have led to many of the environmental problems associated with palm oil. The USG can also provide industry-specific technical assistance, helping the industry meet recently-enacted sustainability criteria and to establish a training institution to nurture sustainable practices for the long term. However, this profitable industry should be able to shoulder the burden of developing its industry in a sustainable fashion. End Summary.

#### The Status of Oil Palm Production in Indonesia

**¶2.** (U) Indonesia is the world's largest palm oil producer (45 percent of global production), with increasing acreage and increasing industry sophistication. In the 2007/2008 marketing year (MY), USDA estimates crude palm oil (CPO) production will increase by 4.5 percent to 18.7 million tons, as acreage expansion from 5 years ago comes into production. Forecast production in 2009 will approach 20 million tons. According to the Indonesia Palm Oil Commission, there were 6.8 million hectares under oil palm cultivation in 2007, with associated revenues of \$7.4 billion.

**¶3.** (U) The combined capacity for biofuel using palm oil as a feed stock in Indonesia is 1.7 million tons per year and the country exported an estimated 300,000 tons in 2007, according to data from the Indonesian Biofuel Producers' Association. Indonesian production of the other principal biofuel, ethanol, was approximately 140 million liters in 2007, with a government target of 3.77 billion liters by 2010. Biodiesel production in 2007 was approximately 1.55 billion liters, with a target of 5.57 billion liters by 2010.

**¶4.** (U) Palm oil is the most traded vegetable oil in the world. Supply and price of the world's most productive oilseed crop have

significant impacts on food and industrial use including that for bio-fuel. The industry is of interest to the U.S. due to palm oil's role in food and feed stocks and the environmental impact of oil palm plantations. Palm oil is a critical element of the foreign trade balance of Indonesia, and will earn an estimated \$13.5 billion in foreign exchange in 2008.

**15. (SBU)** The palm oil industry is the most viable agricultural production industry in Indonesia. However, many firms operate quietly because of the negative environmental attention the industry has faced recently. The highest net worth individuals and many powerful political figures in the country are involved in the industry. Prominent U.S. firms also have a stake in Indonesian oil palm. They include Cargill, which operates a couple of plantations in Indonesia, and ADM, which owns a stake in Wilmar International, the largest palm biodiesel manufacturer in the world and probably the largest oil palm plantation operator in Indonesia.

**16. (U)** Indonesian industrial domestic consumption is forecast to decrease and, despite the hype about biofuels, Indonesian biodiesel producers cannot cost-effectively process CPO into biodiesel because of the high cost of CPO. There were 17 Indonesian biodiesel producers that reportedly suffered \$300 million in losses in 2007. This year, state oil firm Pertamina reduced the percentage of biofuels in its Biosolar and Biopertamax products from 5 percent to 2.5 percent and then again to 1 percent due to rising palm oil prices and the lack of a mandatory policy or incentives.

**17. (U)** However, domestic demand will grow significantly in the medium to long term, if GOI plans to increase biofuels' share of the national energy mix to 2 percent by 2010 and 3 percent by 2015 are

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realized. To reach this target, the GOI is considering the staged introduction of a mandatory biofuel requirement in September 2008, starting in Jakarta, with 3 percent of fuel sold consisting of biodiesel and/or bioethanol.

#### Are Sustainable Systems of Production in Place?

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**18. (SBU)** Lack of forest governance and capacity on land use planning has been the fundamental failing that has allowed this trend. Oil palm is a profitable crop which can grow on degraded lands. However, it is easier and more profitable to clear natural forests (by logging the site, then burning the remaining vegetation) for oil palm. While unbridled oil palm expansion is a threat to Indonesia's forests, properly accomplished increases in productive capacity also present an opportunity. Many oil palm companies are beginning to respond to criticism -- and worry about market pressures -- and are seeking ways to develop plantations in more environmentally sustainable ways. The Roundtable on Sustainable Palm Oil (RSPO) demonstrates that there are significant opportunities to influence private sector investments in Indonesia's oil palm sector, both through keeping up the pressure for more sustainable practices, and providing industry with the technical guidance it requires.

**19. (SBU)** A promising -- and recent -- development is the RSPO Executive Board's approval on May 27, 2008 of the Indonesian National Interpretation (NI) of RSPO Principles and Criteria (P&C). The Indonesia Palm Oil Association (GAPKI), which has effectively implemented sustainable palm oil outreach and training, initiated the National Interpretation process in July 2006 by establishing a Consultative Working Group (CWG). The CWG submitted the final document to RSPO secretariat on November 30, 2007. Indonesian RSPO members held a meeting on June 25, with the theme "Together towards sustainable palm oil", to discuss the challenges of RSPO audits and the implementation of the RSPO P&C.

**10. (SBU)** RSPO audits are commencing in Indonesia following the endorsement of the National Interpretation. RSPO says that there has been progress involving smallholders in the RSPO process, and the Indonesian Smallholder Working Group is planning to undertake trial audits and trial certification with smallholders in Indonesia. The number of Indonesian producers applying for RSPO membership has also been increasing steadily. Several companies expect to be able

to meet RSPO standards in the near term. For the most part, the foreign-owned companies have the best chance of meeting the standards sooner. Although some practices could be implemented after a plantation is established, many of the principles regarding sustainable palm oil involve measures that must be taken while establishing the plantation. This could affect what can be considered reasonable expectations for plantations being certified as sustainable.

#### Promoting the Growth and Use of Sustainable Palm Oil

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##### ¶11. (SBU) With this in mind, Post recommends:

- Sustained (and increased) technical assistance for improving forest governance and capacity on land use planning; and
- Technical assistance for industry-specific and relevant education (and possibly helping to establish an industry research and training institution) to nurture sustainable practices for the long term.

#### Technical Assistance (TA) for Land Use Planning:

¶12. (SBU) The USG already supports forest governance and land use planning through multiple agencies. This should be sustained and increased given the scale of the challenge. In one example of current/projected assistance, USAID has reached an agreement with the Governor of Papua on the terms of providing assistance for both the Integrated Spatial Plan for the Province of Papua as well as for biofuels/palm oil. USAID will assist the Governor in the creation of Local Regulations that will determine the process and criteria for approval of investment and land use dedicated to sustainable

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biofuel crops. This type of activity should be replicated in other key provinces of Indonesia.

#### Education:

¶13. (SBU) The Indonesia Palm Oil Association (GAPKI) is a well managed industry association that understands the risks of international opprobrium for failure to properly develop plantations. GAPKI is now looking at an industry-sponsored technical school or center to train the next generation of leaders and managers in the industry and take in-country technical expertise to the next level. The USG could assist this effort, working together with GAPKI and RSPO and linking commercial with environmental interests. Any USG participation could hinge on a guarantee by large industry players to support the institute and its trust fund. In addition to U.S. companies like ADM and Cargill, we could also look to firms such as Dow Chemical that have found high value uses of vegetable oils.

¶14. (SBU) With ongoing oil palm expansion, the entry point is the industry's need for an educated class of professional technical managers, capable of running large-scale agribusinesses in remote locations. The managers must be able to develop and apply agronomic skills as well as financial and managerial skills, while taking into account environmental sustainability. (Note: A well-designed school or center might be connected to an existing Indonesian agricultural university or school, and affiliated with major U.S. university programs in vegetable oils and seeds. End Note.)

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